



DEPARTMENT OF DEFENSE

AUDIT REPORT

BILLINGS FOR CENTREX AUTOVON TERMINATIONS
IN THE DEPARTMENT OF THE AIR FORCE

No. 91-023

December 28, 1990

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December 28, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Billings for CENTREX AUTOVON
Terminations in the Department of the Air Force
(Report No. 91-023)

This is our final report on the Audit of Billings for CENTREX AUTOVON Terminations in the Department of the Air Force. The audit was performed from January through December 1989. The objective of the audit was to determine whether the Bell Operating Companies have properly billed DoD telecommunications users for Central Office Exchange Service (CENTREX) Automatic Voice Network (AUTOVON) termination service and for special assembly charges in accordance with existing tariffs and agreements. We also evaluated the adequacy of applicable internal controls. This report addresses only Air Force users of CENTREX service. Final reports on the Army, Navy, Defense Logistics Agency, and the Defense Telecommunications Service - Washington either have been issued or will be issued at a future date. A glossary in Appendix A defines communications terms used in this report. Air Force management has made a conscientious effort to correct the weaknesses noted in this report and are to be commended for taking positive and swift action to implement all recommendations.

We identified all Air Force installations that receive leased telephone services from a Bell Operating Company CENTREX. Through a mechanized process, the CENTREX allows the local Bell Operating Company Central Office to act as a transmitter between the Air Force installations and the AUTOVON and the Defense Commercial Telecommunications Network (DCTN). This transmission arrangement is known as an AUTOVON termination and a DCTN termination. The pricing of these terminations is controlled through Bell Operating Company tariff filings at state public utility commission offices. The monthly charge for termination service at an installation is directly proportional to the number of AUTOVON or DCTN access lines located at an Air Force installation. We reviewed monthly Bell Operating Company and American Telephone and Telegraph Company (AT&T) termination charges at all Air Force installations that receive CENTREX. We also reviewed AT&T charges for special assemblies. Special

assemblies are equipment items that are custom designed for DoD users and provide a specific function to the user's mission.

The audit showed that Air Force communications managers improperly certified monthly communications bills from the Bell Operating Companies and AT&T. Communications managers could not verify the authenticity or accuracy of charges since circuit and special assembly inventories were not performed. In addition, installations did not have accurate Communications Service Authorizations and tariffs, both of which are critical to maintaining an adequate contractual relationship with communications vendors. The audit also showed that the Air Force Communications Command does not have an effective oversight program designed to monitor base communications. The results of the audit are summarized in the following paragraphs, and the details, audit recommendations, and management comments are in Part II of this report.

Four Air Force installations were overcharged in excess of \$500,000, over a period of more than 5-years, by AT&T and the Pacific Bell Telephone Company for AUTOVON and DCTN termination service and for special assemblies. If inadequate certification procedures concerning telecommunications billings are not rectified, unnecessary AUTOVON and DCTN termination and special assembly charges could cost the Air Force as much as \$370,409 during the execution of the FY 1991 through FY 1995 Five-Year Defense Plan (see Appendix H).

We recommended that the Commander, Air Force Communications Command, obtain a credit of \$458,053 from AT&T and the Pacific Bell Telephone Company for overpayments relating to AUTOVON termination charges and special assembly items; include in Air Force Regulation (AFR) 700-8, a requirement to maintain Communications Service Authorizations and tariffs pertinent to base telecommunications services and a provision recommending disciplinary action against communications managers who certify bills improperly; and establish an Air Force Communications Command oversight program to annually test the accuracy of inventories and bill paying procedures. We also recommended that the Assistant Secretary of the Air Force (Financial Management and Comptroller) reduce the FY 1991 Air Force communications budget by \$527,036 and reduce the Air Force communications element in the FY 1991 through FY 1995 Five-Year Defense Plan by a total of \$828,462 (page 5).

A draft of this report was provided to the addressee for comments on March 30, 1990. Comments were received from the Air Force on September 5, 1990 (see Appendix F).

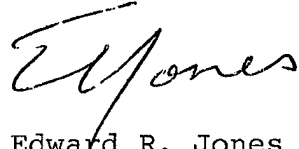
The Air Force concurred with the finding and with Recommendations 1.a., 1.b.(2), 1.c., 2.a., and 2.b. and concurred in part with Recommendation 1.b.(1). On Recommendation 1.b.(1), the Air Force stated that base communications managers can perform their certification duties properly without the need to retain copies of the Basic Agreement. We reconsidered our position, and we have deleted the requirement to maintain Basic Agreements from Recommendation 1.b.(1). In concurring with Recommendations 2.a. and 2.b., the Air Force suggested that specific budget reduction amounts can be determined only after legal and contractual negotiations with AT&T and the appropriate Bell Operating Companies have occurred. We agree and have revised Recommendations 2.a. and 2.b. to accommodate the concerns of the Air Force. We request that the Air Force reply to these revised recommendations in responding to this final report and provide a planned or estimated completion date for planned actions. The planned actions and completion dates for all other recommendations are responsive. Finally, the draft report recommended a reduction in the FY 1990 Air Force communications budget and the FY 1990 through FY 1994 Five-Year Defense Plan (Recommendations 2.a. and 2.b.). Because the recommendations made in this report will affect the FY 1991 Air Force communications budget and the FY 1991 through FY 1995 Five-Year Defense Plan, we have adjusted our computations accordingly.

This report identifies internal control deficiencies as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Recommendations 1.b. and 1.c. in this report, if implemented, will correct these weaknesses. A copy of this report will be provided to the senior officials responsible for internal controls within the Department of the Air Force.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Management comments on the final report should be provided within 60 days of the date of this report. We request that the Air Force provide a concurrence or nonconcurrence with the estimated monetary benefits of \$828,462, identified in Appendix G, recognizing that this specific amount could be affected by negotiations. If you nonconcur with the estimated benefits or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. Potential monetary benefits are subject to resolution in the event of nonconcurrence or failure to comment.

A list of the audit team members is in Appendix J. Copies of the final report will be distributed to the activities listed in Appendix K. If you wish to discuss this final report, please

contact Mr. John A. Gannon at (703) 693-0013 or Mr. Francis C. Bonsiero at (703) 693-0076. The courtesies extended to the staff during the audit are greatly appreciated.

A handwritten signature in dark ink, appearing to read "E. Jones", with a stylized, cursive script.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc:

Secretary of the Air Force
Deputy Assistant Secretary of Defense (Command,
Control and Communications)
Director, Defense Communications Agency

BILLINGS FOR CENTREX AUTOVON TERMINATIONS
IN THE DEPARTMENT OF THE AIR FORCE

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Prepared by:
Readiness and Operational
Support Directorate
Project No. 9IC-0025.01

BILLINGS FOR CENTREX AUTOVON TERMINATIONS
IN THE DEPARTMENT OF THE AIR FORCE

PART I - INTRODUCTION

Background

The Automatic Voice Network (AUTOVON) and the Defense Commercial Telecommunications Network (DCTN) are the long-distance voice (telecommunications) networks for the Department of Defense. Appendix A defines the communications terms intrinsic to this audit report. These two networks function as general purpose (common-user) backbone networks, and DoD subscribers pay user fees to the Defense Communications Agency (DCA) for the maintenance and operation of the networks. DCA is responsible for the design, acquisition, and management of both networks. However, camp, post, station, and base communications needs, such as AUTOVON and DCTN terminations and special assemblies, at DoD activities and installations are acquired and managed through a base communications office at DoD installations. Obtaining access to the AUTOVON and DCTN is a function of base communications.

Before deregulation and divestiture of the American Telephone and Telegraph Company (AT&T) and the Bell Operating Companies on January 1, 1984, AT&T primarily provided, maintained, and billed for local and long-distance telephone service and associated customer-premise equipment (leased equipment). With the advent of divestiture, AT&T, and its 22 Bell Operating Company subsidiaries, were divested of assets and services by Federal court decree in the Plan of Reorganization. Among other things, the Plan of Reorganization separated local service from long-distance service and established distinct telecommunications markets. AT&T became the provider of long-distance service, and the 22 Bell Operating Companies were allowed to provide local exchange services through their automated telecommunications system known as the Central Office Exchange Service (CENTREX). In addition, AT&T maintained ownership of and the right to charge for leased equipment and special assemblies. Appendix B contains additional information on the billing effects of divestiture within the DoD and on Air Force users of CENTREX.

After divestiture in 1984, DoD CENTREX installations received two monthly telecommunications bills, an AT&T bill and a local Bell Operating Company bill. Among the more significant billing items on the AT&T invoice were the charges for AUTOVON terminations and special assemblies. An AUTOVON and a DCTN termination is a software function of CENTREX that provides a DoD CENTREX customer with connectivity from the local installation to the AUTOVON and DCTN network, respectively. However, AT&T should not have charged for AUTOVON termination service because that service was provided by the Bell Operating Companies, not AT&T.

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For the purposes of this report, we have termed such erroneous charges as overcharges. The local Bell Operating Companies file tariffs with state public utility commissions and are granted the exclusive right to provide DoD customers with AUTOVON and DCTN termination services. Bell Operating Company tariffs are filed as private line terminations and affect both the AUTOVON and the DCTN systems. However, at three Air Force installations in California, a Bell Operating Company overcharged for DCTN terminations. See Part II of this report for a detailed discussion on DCTN overcharges.

A special assembly is equipment leased from AT&T and is specially designed for the specific needs of a DoD customer. A special assembly can be added to existing equipment or circuits or can function as a separate equipment item. In all cases, special assemblies enhance the ordinary capabilities of existing equipment and have features that are essential to DoD customers. For example, many DoD customers require special telephone voice filters to maintain confidential telecommunications. Other DoD customers require special telephone conferencing arrangements. In both instances, AT&T provides the special assemblies to meet DoD communications needs.

Objectives and Scope

The objective of the audit was to determine whether the Bell Operating Companies have properly billed DoD telecommunications users for CENTREX AUTOVON termination service and for special assembly charges in accordance with existing tariffs and agreements. We also evaluated the adequacy of applicable internal controls. This report addresses only Air Force users of CENTREX. Separate reports on users in the Army, Navy, Defense Logistics Agency, and Defense Telecommunications Service - Washington either have been issued or will be issued at a future date.

The audit concentrated on AT&T and Bell Operating Company charges for AUTOVON and DCTN termination service and special assembly items at Air Force CENTREX installations for the period January 1, 1984, through May 31, 1989.

AT&T provided us the official accounting records for the period January 1, 1984, through August 31, 1988. From these records, we determined that seven Air Force installations were serviced by CENTREX. Further, we identified four ^{1/} Air Force installations that were being erroneously billed for AUTOVON or DCTN termination service and special assemblies. The remaining

^{1/} McClellan Air Force Base, California; Los Angeles Air Force Base, California; Onizuka Air Force Base, California; and the U.S. Air Force Academy, Colorado.

three Air Force installations were not charged for AUTOVON termination service or special assemblies. We verified the erroneous charges with the records available at the four Air Force installations included in the audit. We provided Air Force installation commanders with our results immediately upon completion of the verification work at each site. Further, to provide timely audit results, we sent memorandums to these commanders summarizing our findings, and provided the same summaries to the appropriate higher Air Force commands and to DCA.

This economy and efficiency audit was made from January through December 1989. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix I.

Internal Controls

The Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123 require each Federal agency to establish a program to identify significant internal control weaknesses. Air Force Regulation (AFR) 15-1, "Air Force Internal Controls," dated October 29, 1986, contains policies and procedures for implementing the Air Force's internal controls programs.

The Air Force Communications Command had not implemented an internal control program for communications bill paying procedures. For those Air Force installations included in our audit, we reviewed certification procedures relating to monthly communications bills from January 1, 1984, through May 31, 1989. An internal control objective for certification procedures should be designed to ensure that charges for services provided by communications vendors are accurate. The internal control weaknesses identified in Part II of this report can be attributed to Air Force communications managers performing ineffective certifications of monthly communications bills. The overcharges identified in this report could have been avoided if the Air Force Communications Command had implemented an oversight program designed to evaluate the effectiveness of procedures for maintaining official inventories of services and equipment and for reconciling monthly bills at Air Force installations.

Prior Audit Coverage

The Air Force Audit Agency Report No. 6216211, "Management of Installation-Level Communications Facilities and Services," dated August 14, 1987, disclosed that one of the four Air Force installations included in the report did not promptly pay or

adequately verify monthly telecommunications bills. The report recommended that management initiate corrective action to ensure that telephone bills are adequately verified. Although Air Force management concurred with this recommendation and indicated its intent to implement corrective action, our report addresses similar inadequate verification procedures.

The Office of the Assistant Inspector General for Auditing, DoD, Report No. 90-005, "Requirements Validation For Telecommunications Services," dated October 16, 1989, stated that installation circuit inventories were often missing or inaccurate. The report recommended that DoD Components establish and accurately maintain, at the user, communications command, or communications management levels, perpetual inventories of telecommunications circuits leased and owned by the Defense Communications Systems Organization. The Assistant Secretary of Defense (Command, Control, Communications and Intelligence) concurred with this recommendation and is implementing a DoD directive to accomplish the inventory objective. The results of our current audit reinforce the need to perform and maintain accurate inventories of telecommunications assets at the installation level.

PART II - FINDING AND RECOMMENDATIONS

AUTOVON and DCTN Terminations and Special Assembly Overcharges

FINDING

Four Air Force installations were overcharged in excess of \$500,000 by the American Telephone and Telegraph Company (AT&T) and the Pacific Bell Telephone Company (Pacific Bell) for termination service for the Automatic Voice Network (AUTOVON) and Defense Commercial Telecommunications Network (DCTN) and for special assembly equipment. AT&T overcharges resulted from incorrect billings after divestiture in 1984. Pacific Bell overcharges represented a tariff misapplication for DCTN. Since DCTN terminations are identical to AUTOVON terminations, a higher tariff should not have been applied. The overcharges were incurred continuously for a period of more than 5 years because Air Force communications managers did not perform inventories of circuits and leased special assemblies and did not check the accuracy of telephone bills before certifying them for payment. As a result, the Air Force overpaid AT&T and Pacific Bell in excess of \$500,000 for AUTOVON and DCTN termination service and special assembly equipment. Unless this condition is rectified, unnecessary AUTOVON and DCTN termination and special assembly charges could cost the Air Force as much as \$68,983 during FY 1991 and \$370,409 during FY 1991 through FY 1995.

DISCUSSION OF DETAILS

Background. The Basic Agreement and the Communications Service Authorization (CSA) are the two documents that together form the required communications contract between the Air Force installation and the telephone company vendors. When viewed individually, neither document has the force of a contract. In the Basic Agreement, the Defense Commercial Communications Office (DECCO), a subordinate activity of the Defense Communications Agency (DCA), sets forth the general terms and conditions between the DoD and the telephone company vendor. Then, the CSA is issued to the telephone company vendor to provide specific services and equipment.

The Telecommunications Services Division of the Air Force Communications Command is responsible for awarding and issuing CSA's for all Air Force base communications activities. The Telecommunications Services Division also maintains copies of the Basic Agreements for vendors providing base telecommunications services and equipment to the Air Force. Costs for services and equipment cannot exceed the stipulated dollar amount authorized in the CSA; CSA's are not binding unless issued pursuant to a Basic Agreement. Although Air Force Regulation (AFR) 700-4, "Information Systems Program Management and Acquisition," dated

March 15, 1985, explains the mechanics for completing a CSA, no Air Force regulation explains the role of CSA's and Basic Agreements.

CSA's should accurately reflect the type of communications services and equipment that an Air Force installation is requesting from a telephone company vendor. Normally, the CSA will define and classify telephone services by billing codes, commonly referred to by telephone company vendors as Universal Service Order Codes. AUTOVON and DCTN termination service and special assembly equipment are two types of telephone services common to Air Force Central Office Exchange Service (CENTREX) subscribers that appear on an installation's monthly bill.

AUTOVON Terminations. Air Force AUTOVON and DCTN users must pay a backbone fee to DECCO for use of the AUTOVON and DCTN. In addition, Air Force CENTREX users pay a charge to the local Bell Operating Company for routing incoming and outgoing AUTOVON and DCTN calls from the local Bell Central Office to the installation. Through a mechanized process, a CENTREX software function allows the Central Office to act as a transmitter between the installation and the AUTOVON and DCTN. This transmission arrangement is known as an AUTOVON and a DCTN termination. The monthly charge for termination service is directly proportional to the number of AUTOVON or DCTN access lines located at the Air Force installation and is controlled in most states through tariffs filed by the local Bell Operating Company with the appropriate state public utility commission.

Special Assemblies. Customer-premise equipment (leased equipment) that is specially designed for the specific needs of an Air Force CENTREX user is known as a special assembly. Basically, a special assembly is equipment added to either existing equipment or voice (telecommunications) lines that enhance the ordinary capabilities of the equipment or lines. There is a monthly equipment charge ranging from less than \$5 per unit to more than \$250 per unit for every special assembly device installed at an Air Force installation.

Criteria. AFR 700-8, Volume I, "Telephone System Management," dated June 1, 1987, defines levels of responsibility and accountability for Air Force base communications procedures. The Base Communications-Computer Systems Officer (CSO) is vested with overall operation of the base communications telephone system. Verifying the accuracy of invoices from telephone company vendors and certifying to the base Accounting and Finance Office that the charges are proper and correct are two primary CSO responsibilities outlined in AFR 700-8. The CSO can delegate these responsibilities to a base communications Telephone Control Officer (TCO). Additionally, the CSO ensures that all installed telephone equipment is physically inventoried and certified annually by the TCO as stipulated in AFR 700-8.

Installation commanders are required by AFR 700-8 to ensure that users follow prescribed operating policies and procedures of that Regulation. For the purposes of this report, the CSO's and the TCO's are referred to as communications managers.

Methodology. The audit concentrated on AT&T and Bell Operating Company charges for AUTOVON and DCTN termination service and special assembly items at Air Force CENTREX installations for the period January 1, 1984, through May 31, 1989. A detailed explanation of our audit methodology is in Appendix C.

AUTOVON and DCTN Termination Overcharges. After divestiture of AT&T in January 1984, Air Force communications managers received a monthly AT&T bill, which itemized leased equipment, and a monthly Bell Operating Company bill, which primarily reflected charges for local and long-distance telephone services. Ideally, immediately after divestiture, base communications managers should have identified the services and equipment associated with the AT&T bill and those associated with the local Bell Operating Company bill. Because this distinction was not made, billing errors relating to AUTOVON and DCTN termination service occurred at the Air Force installations included in the audit. At two of the installations, billing errors went undetected for more than 5 years.

AT&T Overcharges. Due to the erroneous transfer of billing codes from the Regional Bell Operating Companies to AT&T at the time of divestiture (described in detail in Appendix B), AT&T overcharged four Air Force installations for AUTOVON termination service. In each instance, the service was provided by the local Bell Operating Company, not AT&T. We found that although base communications managers were certifying monthly AT&T bills, they did not realize that AT&T was erroneously billing their installations for AUTOVON terminations. The audit showed that improper certifications and subsequent overpayments continued for periods ranging from 22 to 62 months. Overcharges, by installation, are summarized below.

Summary of AT&T AUTOVON Termination Overcharges

<u>Air Force Installation</u>	<u>Period of Overcharges</u>	<u>Amount Overcharged</u>
McClellan AFB*	March 1984 to May 1989	\$213,827
Los Angeles AFB	April 1984 to May 1989	81,998
Onizuka AFB	March 1984 to April 1989	22,981
Air Force Academy	May 1984 to October 1986	17,966
		<u>\$336,772</u>

* AFB - Air Force Base

McClellan Air Force Base (AFB) Overcharges. In 1987, although AT&T became aware of overcharging at McClellan AFB, it continued to overcharge through 1989 for minor charges associated with AUTOVON termination service. In January 1988, AT&T issued a cash refund of \$132,147 to McClellan AFB through the Pacific Bell Telephone Company (Pacific Bell), the local exchange carrier for McClellan AFB. The refund represented AT&T's calculation of its overcharging for AUTOVON termination service at McClellan AFB. Instead of issuing an invoice credit of \$132,147 directly to McClellan AFB (as is AT&T's customary practice), AT&T mistakenly concluded that McClellan AFB owed \$132,147 to Pacific Bell.

Beginning in March 1984, communications managers at McClellan AFB incorrectly believed that AT&T charges for AUTOVON termination service were proper and subsequently paid AT&T for these charges for a period of more than 3 years. However, during this 3-year period, Pacific Bell, the provider of the AUTOVON termination service, was also billing McClellan AFB for these charges. In November 1985, the communications managers at McClellan AFB realized that duplicate payments for AUTOVON termination service were being made, and they ceased making monthly payments to Pacific Bell. Accordingly, for approximately 2 years, McClellan AFB withheld from Pacific Bell \$53,931 in AUTOVON termination charges. In January 1988, Pacific Bell credited and applied \$53,931 (from the AT&T refund) to the McClellan AFB overdue account relating to AUTOVON termination service. Pacific Bell erroneously applied the remaining \$78,216 to other communications charges that were in dispute between McClellan AFB and Pacific Bell. Since Pacific Bell did not apply the \$78,216 balance to valid charges, \$78,216 was still owed to McClellan AFB as of May 31, 1989. Further, an additional \$81,680 of AT&T AUTOVON termination overcharges is owed to McClellan AFB. The amount represents the difference between the auditors' calculation of overcharges (\$213,827) and AT&T's assertion of overcharges (\$132,147). AT&T did not provide the other three Air Force installations with either credits or refunds for AUTOVON termination overcharges.

U.S. Air Force Academy. The communications managers at the Air Force Academy became aware of AT&T AUTOVON termination overcharges in June 1988, during a site visit made by our auditors. In June 1988, the Air Force Academy requested that AT&T provide it with a credit equal to the amount overcharged for AUTOVON termination service. AT&T did not honor the request, stating that the Air Force Academy would first need to furnish proof that duplicate payments for the disputed billing items were made to the local exchange carrier. On the advice of the Air Force Communications Command, Staff Judge Advocate, the Air Force Academy discontinued credit discussions with AT&T in January 1989. The Staff Judge Advocate's office was aware that

our office was conducting an audit and decided to withhold any collection action against AT&T until the conclusion of the audit. As of March 1989, the Academy was due almost \$18,000 from AT&T overcharges relating to AUTOVON termination service.

Los Angeles AFB. Although AT&T overcharged Los Angeles AFB for AUTOVON termination service from April 1984 through 1989, the significant overcharging ceased in January 1986. Minor overcharges (totaling \$2,985) for AUTOVON termination service continued through May of 1989. Total AT&T overcharges of \$81,998 were owed to Los Angeles AFB at the conclusion of our audit field work in June 1989.

Onizuka AFB. AT&T's AUTOVON termination overcharges began in March 1984 and continued through April 1989. At the conclusion of our audit field work in June 1989, AT&T owed Onizuka AFB \$22,981 in overcharges for AUTOVON termination service.

Pacific Bell Overcharges. Pacific Bell provides AUTOVON and DCTN termination service to McClellan AFB, Los Angeles AFB, and Onizuka AFB and is entitled to bill these installations for that service. However, from March 1986 through May 1989, Pacific Bell overcharged these three installations due to a pricing disparity between amounts charged for AUTOVON terminations and DCTN terminations.

DCTN became operational in early 1986 and was designed to alleviate AUTOVON traffic burdens. Most AUTOVON sites are located at nonmilitary locations, while all but one of the DCTN sites are located at military installations. AT&T personnel are responsible for the operation of both the AUTOVON and DCTN, irrespective of site location.

AUTOVON and DCTN are recognized as private line networks by the Federal Communications Commission (FCC). Designating a communications system as a network affects the type of regulatory tariff that a Bell Operating Company files with a state public utility commission. For example, all Bell Operating Companies have filed private line network tariffs for the AUTOVON since FCC Tariff No. 9 designated the AUTOVON as a network. Accordingly, AUTOVON termination charges are correctly tariffed as private line terminations by the Bell Operating Companies. However, although FCC Tariff No. 12 established DCTN as a network, Pacific Bell was unaware of this official FCC filing. Since DCTN sites are located at military installations, Pacific Bell erroneously viewed DCTN as a simple Private Branch Exchange (PBX) switching unit and not as a network officially recognized by the FCC. This erroneous interpretation influenced the type of termination tariff applied by the regulatory division of Pacific Bell and was used as a source to price DCTN terminations. DCTN terminations were treated as tie-line terminations and were priced at

\$92.75 per line; private line (AUTOVON) terminations were priced at \$51 per line. Pacific Bell charged Air Force CENTREX users \$51 for each AUTOVON termination while charging \$92.75 for each DCTN termination. We viewed the \$41.75 difference as an overcharge.

To substantiate our view, we met with the AUTOVON and DCTN program managers of the Western Hemisphere Branch, DCA, and also with officials from the Commercial Integrated Services Office, DCA. The DCA officials reemphasized that FCC Tariff No. 12, dated July 3, 1985, had established DCTN as a network. In addition, DCA officials noted that the AUTOVON and DCTN are functionally identical and that no distinctions are made between them as long-distance networks of the Defense Communications System Organization. Given the network similarities of AUTOVON and DCTN, we classified DCTN charges as private line termination charges and not as tie-line termination charges. As a result of the AUTOVON and DCTN termination pricing disparity, Pacific Bell overcharged three Air Force installations for DCTN termination services. Computations in Appendix D show that Pacific Bell overcharged the Air Force \$101,626, consisting of \$99,089 in DCTN overcharges. The remaining \$2,537 represents an overcharge for a Precedent-AUTOVON termination.

We met with Pacific Bell marketing officials on July 20, 1989, to discuss our initial estimate of overcharges and to furnish documentation to support our audit position. Pacific Bell did not provide us with information to refute the overcharge allegation. We informed Pacific Bell officials in September 1989 of our final position that Pacific Bell had overcharged three Air Force installations for DCTN termination service.

AT&T Special Assembly Overcharges. AT&T overcharged McClellan AFB, Los Angeles AFB, and the Air Force Academy for special assemblies that could not be identified or located by Air Force communications managers. AT&T retained the right to charge for special assemblies as part of the post-divestiture decree relating to the assignment of assets. The special assemblies provided by AT&T are equipment items that are available to the DoD only and are specially designed for a user's mission. Generally, the special assemblies enhance the features of ordinary telecommunications equipment. Special assemblies can be modest equipment items (i.e., an addition of a button to a telephone set) that are priced at a minimal unit charge of less than \$5 per month, or they can be elaborate telecommunications systems that are priced at monthly rates of more than \$250 per unit. Many of the special assemblies were installed by AT&T several years before divestiture and removed by AT&T as assemblies became obsolete and were replaced by state-of-the-art equipment available to all AT&T customers. However, AT&T did not maintain records documenting the removal of special assemblies. Yet, AT&T continued to bill these three Air Force installations

for special assemblies that could not be located. McClellan AFB and Los Angeles AFB were billed by AT&T for unidentified special assemblies from March 1984 through the conclusion of our audit field work in June 1989. Special assembly overcharges at the Air Force Academy began in May 1984, but ceased in October 1986. Special assembly overcharges at the three Air Force installations are shown in Appendix E and total \$73,586. We found no instances of overcharges for special assemblies at Onizuka AFB.

Inventory Procedures. Generally, Air Force installations that we visited did not comply with the annual inventory provision of AFR 700-8, which requires an annual certification statement declaring that all installed telephone equipment has been physically inventoried. Had communications managers accounted for and classified installation circuits, they could have assessed the accuracy of the number of AUTOVON and DCTN termination charges by the local Bell Operating Company. Circuits should have been classified as Routine-AUTOVON, Precedent-AUTOVON, and DCTN circuits. Establishing an official base communications circuit inventory as required by AFR 700-8 could have been accomplished through coordinated efforts by the installation communications manager and the DCA; specifically, the Western Hemisphere Branch of the Defense Communications System Organization. The annual inventory certification would have detected unrecorded additions and deletions of circuits, facilitated certification of payments, and provided the Air Force with a solid basis to dispute AUTOVON and DCTN termination overcharges.

Communications managers at McClellan AFB, Los Angeles AFB, and Onizuka AFB never conducted a physical inventory or provided an annual inventory certification of special assemblies. If inventories had been performed, communications managers could have verified whether or not special assemblies existed and subsequently could have validated or promptly disputed the AT&T monthly charges. At Onizuka AFB, the communications managers could not identify or locate special assembly items. Inventories of the special assemblies at Onizuka AFB were accomplished only through the assistance of an AT&T employee assigned to the installation to provide maintenance on mission-related equipment.

The Air Force Academy inventories telecommunications services and equipment annually in an effort to comply with AFR 700-8. The 1988 Air Force Academy inventory disclosed that 26 equipment items billed by AT&T, at a total monthly cost of \$1,068, could not be located. The Academy requested AT&T to remove the charges from its bill if AT&T confirmed the findings. AT&T could not locate the 26 items at issue and subsequently dropped the charges from the bill. In this isolated instance, good inventory management by the Air Force Academy saved the Air Force about \$13,000 a year.

Sound inventory procedures are not only necessary and required by AFR 700-8, they also help eliminate guesswork whenever uncertainties emerge during the payment certification process of monthly bills.

Payment Certification Procedures. Once inventories have been established, communications managers should ensure that monthly charges for telecommunications services and equipment are accurate. AT&T special assembly equipment charges are normally published on a general schedule, and prices are usually fixed for a 3- to 5-year period. We found that none of the Air Force installations could properly certify the accuracy of the AT&T charges for special assemblies. Additionally, none of the installations maintained copies of approved tariffs pertaining to pricing information for AUTOVON and DCTN termination charges. Communications managers should maintain a current list of the approved tariffs filed by the servicing Bell Operating Company with the state public utility commission. The maximum authorized price for AUTOVON and DCTN terminations is listed separately in the tariff document, and this specific pricing data should be kept on file by base communications managers. The entire tariff document does not need to be maintained by the communications manager. Only information relevant to AUTOVON and DCTN termination service charges should be maintained. Subsequent monthly invoice charges for AUTOVON and DCTN terminations cannot, by state decree, exceed the authorized rate.

To complete the certification process, current Communications Service Authorizations (CSA's) must be on file at the installation and reviewed with some frequency as changes in telecommunications services occur. Monthly payments for telecommunications services should be made only if authorized under the specific terms of the CSA. However, three of the four Air Force installations did not maintain a current CSA that reflected accurate services and charges. For example, the communications manager at McClellan AFB had a CSA on file that authorized payment to AT&T for AUTOVON termination service and for special assemblies. Yet, since 1984, or for more than 5 years, AUTOVON termination service to McClellan AFB was provided by Pacific Bell, not AT&T. In addition, the special assemblies, which were listed on the CSA and totaled more than \$1,100 per month could not be identified, and these charges are considered invalid. Accordingly, the CSA on file at McClellan AFB authorizing payment to AT&T was inaccurate. The communications manager at McClellan AFB had merely used an AT&T bill, which was erroneous, as a source of reference to update the CSA.

The Air Force Academy had a 1989 CSA on file that accurately itemized the monthly services. The Air Force Academy amended ^{2/} its CSA with AT&T immediately following the 1988 base communications inventory, limiting payment to only those items listed on the 1989 CSA. As the Academy receives monthly AT&T invoices, it needs only to reference the current AT&T CSA to resolve discrepancies if questionable line item charges appear.

With the noted exception of the Air Force Academy, inadequate inventory and payment certification procedures existed at the Air Force installations we audited. The erroneous charges by AT&T and the Bell Operating Companies went undetected for more than 5 years, primarily because communications managers did not properly certify invoices prior to payment. As a result of improper certification procedures, the Government's monetary interests were left unprotected at all levels of the base communications management structure. Communications managers did not identify erroneous monthly charges and continually certified and subsequently authorized erroneous invoices for payment to the base Accounting and Finance Office. Finally, installation commanders did not verify that communications managers were following the prescribed operating policies and procedures of AFR 700-8.

In our opinion, communications managers disregarded the provisions of AFR 700-8. The Air Force Communications Command needs to rigidly enforce the inventory and bill paying certification requirements in the Regulation. The Air Force Communications Command should establish an oversight program that annually verifies the effectiveness of base communications inventory and bill paying certification procedures. In addition, AFR 700-8 should contain a provision that addresses disciplinary action against communications managers who incorrectly certify bills and fail to use appropriate bill paying verification procedures. This remedial measure should forewarn all communications managers of the need to properly certify bills prior to payment. The Air Force Communications Command should provide results of the annual internal control program, including the identification of communications managers who do not properly certify bills and thus warrant disciplinary action, to the major commands within the Air Force.

^{2/} Procedurally, CSA's can be amended only by a contracting officer of the Air Force Communications Command. To amend a CSA, the base communications manager submits a Request for Communications Services to Tinker AFB, Oklahoma. Approved amended copies of CSA's are sent back to the base communications office and the servicing Accounting and Finance Office by the contracting officer.

Corrective Action Taken. During the audit, we provided the commanders of all four Air Force installations with the results of our audit and provided interim recommendations for improvements. Additionally, we advised appropriate higher level Air Force officials, the Defense Communications Agency, and the Office of the Secretary of Defense of conditions noted. Immediate corrective actions were implemented. Stronger installation-level certification procedures were enforced, and a concerted effort was undertaken to improve the accuracy of inventories. The Air Force Communications Command representatives conferred with us and initiated a dialogue between Air Force contracting officers and appropriate telephone company vendors. The prompt action and concern by Air Force officials is laudatory. However, additional management actions are necessary to preclude a recurrence of these or similar problems.

Cost Impact to the Air Force. From March 1984 to May 1989, AT&T and Pacific Bell overcharged the Air Force in excess of \$500,000 for AUTOVON and DCTN termination service and special assemblies. Details by Air Force installation follow.

Summary of Total Overcharges

<u>Installation</u>	<u>Total AT&T Overcharges</u>	<u>Total Pacific Bell Overcharges</u>	<u>Previous AT&T Credit</u>	<u>Outstanding Overcharges</u>
McClellan AFB	\$282,497	\$ 4,193	<\$53,931>	\$232,759
Los Angeles AFB	84,197	81,186	0	165,383
Onizuka AFB	22,981	16,247	0	39,228
Air Force Academy	20,683	0	0	20,683
	<u>\$410,358</u>	<u>\$101,626</u>	<u><\$53,931></u>	<u>\$458,053</u>

The \$458,053 represents the actual nonrecurring annual savings for AUTOVON and DCTN termination service and special assembly overcharges (net AT&T overcharges of \$356,427 plus Pacific Bell overcharges of \$101,626). Of the total amount overcharged, \$63,657 of recurring annual costs for AUTOVON termination and special assembly charges is attributable to FY 1989. These FY 1989 overcharges, stated in FY 1990 dollars (inflation factor of 4.1 percent for FY 1990), total \$66,267. To project the recurring annual savings for FY 1991, we applied the established DoD inflation factor (4.1 percent for FY 1991) and calculated the total to be \$68,983. Using the FY 1991 recurring savings (\$68,983) as the base year, we then applied the established DoD inflation factors (3.8 percent for FY 1992, 3.6 percent for FY 1993, 3.3 percent for FY 1994, and 3.1 percent for FY 1995) for the next four fiscal years, calculating the total recurring savings for the Five-Year Defense Plan at \$370,409. The net

recurring savings for the Five-Year Defense Plan (\$370,409 plus \$458,053) was \$828,462. We concluded, therefore, that the Air Force may pay as much as \$527,036 during FY 1991 and \$828,462 during FY 1991 through FY 1995 in unnecessary telecommunications charges. Budgetary projections resulting from this audit for the Five-Year Defense Plan are in Appendix H.

Management Control. DoD Directive 5010.38, "Internal Management Control Program," dated April 14, 1987, guides DoD Components in establishing internal control programs. DoD Components should implement a comprehensive system of internal management controls to provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. An internal control program should also prevent mismanagement and correct specific weaknesses in a timely manner. AFR 15-1, "Air Force Internal Controls," dated October 29, 1986, states, "All Air Force functions, whether a headquarters or a field function, are to have adequate, working, and cost-effective internal controls as part of their management process." Although AFR 700-8 provides cursory guidance for bill paying procedures, there is no guidance concerning procedures of preparing and updating CSA's and maintaining tariff information on telecommunications services provided to a base. CSA's and tariff pricing information are necessary in order to verify that monthly communications charges are accurate. To obtain maximum compliance with the certification procedures, a provision addressing disciplinary action against communications managers who do not properly certify bills should also be included in AFR 700-8. Finally, command oversight responsibilities relating to internal controls over certification procedures are not addressed. Oversight or monitoring procedures by the Air Force Communications Command will also ensure compliance with internal controls and should be incorporated into AFR 700-8 or other internal control guidance.

Conclusion. The telecommunications overcharges experienced by the Air Force can be attributed, in part, to the confusion resulting from divestiture and deregulation in January 1984. Air Force communications managers were unclear as to the exact role that the telephone company vendors assumed immediately after divestiture, which may explain why communications managers initially certified erroneous vendor bills. However, as the roles of AT&T and the Bell Operating Companies became better defined, Air Force communications managers should have familiarized themselves with the types of service and authorized charges of each vendor. Yet, for almost 5 years after divestiture, AT&T and the Bell Operating Companies continued to submit invoices with erroneous charges for AUTOVON and DCTN termination service and special assemblies, and Air Force communications managers continued to certify these bills. In some instances, improper certification occurred as late as 1989. In addition, three of the four installations included in

our audit maintained incorrect CSA's and did not provide inventory certification of circuits and special assemblies as required by AFR 700-8. Proper certification of communications bills cannot be accomplished unless Air Force communications managers perform inventories and maintain accurate CSA's and tariffs.

Policy officials at the Air Force Communications Command are eager to reverse the trends that exist not only at the installations included in our audit, but also at all Air Force installations. Strengthening certification procedures, establishing remedial measures for disciplinary action against communications managers, and increasing the Air Force Communications Command's oversight function relating to base communications certification procedures could produce the desired results that the Command seeks. An annual program that tests the accuracy of inventories by reconciling them to the CSA's and certified bills is an example of the type of oversight program that the Air Force Communications Command can pursue.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commander, Air Force Communications Command:

a. Direct that the responsible Air Force Contracting Officer take action to recover \$458,053:

(1) by obtaining a credit of \$356,427 from AT&T for the four Air Force installations (McClellan AFB, Los Angeles AFB, Onizuka AFB, and the Air Force Academy) overcharged for Automatic Voice Network termination service and special assemblies; and

(2) by obtaining a credit of \$101,626 from Pacific Bell for the three Air Force installations (McClellan AFB, Los Angeles AFB, and Onizuka AFB) overcharged for Automatic Voice Network and Defense Commercial Telecommunications Network termination service.

b. Change the "Billing Procedures" section of Air Force Regulation 700-8:

(1) by adding a requirement for base communications managers to maintain a current copy of all applicable Communications Service Authorizations with the necessary tariff information, so that proper monthly certification of telecommunications services can be accomplished; and

(2) by adding a provision for disciplinary action against communications managers who fail to certify bills properly and use inadequate bill paying verification procedures.

c. Establish a command internal control program to annually test the accuracy of base communications bill paying procedures by reconciling base communications inventories to the Communications Service Authorizations and certified bills. The Air Force Communications Command should provide results of this annual program to all major commands within the Air Force.

2. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller):

a. Reduce the appropriate Air Force communications budget for FY 1991 by \$527,036, subject to the resolution of legal and contractual issues and subsequent negotiations with AT&T and Pacific Bell.

b. Reduce the appropriate Air Force communications program element for the FY 1991 through FY 1995 Five-Year Defense Plan by a total of \$828,462, subject to the resolution of legal and contractual issues and subsequent negotiations with AT&T and Pacific Bell.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

Management Comments. The Air Force concurred with Recommendations 1.a., 1.b.(2), 1.c., 2.a., and 2.b., requesting minor adjustments relating to the budgetary reduction action outlined in Recommendations 2.a. and 2.b. The Air Force concurred in part with Recommendation 1.b.(1), believing it inappropriate to require base communications managers to retain copies of the Basic Agreement. The Air Force felt that the maintenance of the Basic Agreement is a function that would be better served by the centralized contracting division for Air Force base communications located at Tinker AFB, Oklahoma.

Audit Response. The comments from the Air Force on Recommendations 1.a., 1.b., and 1.c. are fully responsive. Comments on Recommendations 2.a. and 2.b. lack only a planned or estimated completion date to be considered fully responsive, and the Air Force should address this when replying to this final report.

Concerning Recommendation 1.b.(1), we reconsidered our position and agree with the Air Force that the Basic Agreement should be maintained by contracting officers for Air Force telecommunications, whose function is located at Tinker AFB, Oklahoma. We have revised Recommendation 1.b.(1) accordingly. We also agree with the Air Force that the budgetary projections we originally computed in the draft report might be subject to adjustments based on the negotiations the Air Force enters into with AT&T and the Bell Operating Companies; therefore, we have added a contingency to Recommendations 2.a. and 2.b.. We have also amended Recommendations 2.a. and 2.b. to portray a more probable

budget reduction scenario for FY 1991 and the FY 1991 through FY 1995 Five-Year Defense Plan. We request that the Air Force reply to revised Recommendations 2.a. and 2.b. in response to this final report.

The Air Force telecommunications community has raised its level of interest and awareness since the time our audit commenced in 1989. We have witnessed a proactive surge of developments at the Air Force Communications Command, as well as at Headquarters, U.S. Air Force. For example, the concern and attention given to each of the above recommendations shows an interest in the Air Force to improve base communications bill paying procedures. Accordingly, the Air Force should notice immediate improvement in the efficiency of telecommunications bill paying procedures.

GLOSSARY

AUTOVON	The Automatic Voice Network is a part of the Defense Communications System's long-distance telecommunication service.
AUTOVON Access Lines	Provides Air Force subscribers access to the AUTOVON network via line connections from the Central Office Exchange System to the AUTOVON switch.
Backbone Costs	Costs associated with AUTOVON and DCTN, incurred for lease of switches and interconnecting circuits, operation and maintenance of switching centers, and administrative expenses.
Base Communications	The local area telecommunications needs of an Air Force installation.
Bell Operating Companies	The 22 independent Bell Telephone Companies that provide local telecommunications needs to a defined geographic area.
Central Office Exchange Service (CENTREX)	A highly automated telecommunications center where the Bell Operating Companies terminate customer lines and house the equipment that interconnects these lines. The CENTREX provides Air Force installations with access to long-distance networks (such as AUTOVON and DCTN) from local bases.
Communications Service Authorizations (CSA)	Telecommunications service contracts placed by Air Force installations against Basic Agreements established with various vendors.
Defense Commercial Telecommunications Network (DCTN)	A part of the Defense Communications System's long-distance telecommunication service that was designed to alleviate AUTOVON traffic burdens.

GLOSSARY (Continued)

Plan of Reorganization	The Federal court document that outlines the divestiture agreement between AT&T and the Bell Operating Companies.
Precedent-AUTOVON Termination	A prioritized AUTOVON call that can preempt all other AUTOVON calls.
Private Branch Exchange (PBX)	Customer owned or leased switching equipment that is located on Air Force installations.
Private Line Terminations (AUTOVON or DCTN terminations)	A physical switching mechanism that allows Air Force CENTREX subscribers to connect local area telecommunications with the AUTOVON or DCTN. Termination charges are controlled by state public utility commissions as a result of tariffs filed by the Bell Operating Companies.
Regional Bell Operating Company	Seven Bell holding companies that are parent corporations to the 22 local Bell Operating Companies (for example, the Pacific Bell Telephone Company is controlled by Pacific Telesis).
Routine-AUTOVON Termination	An AUTOVON call which has no preemptive capability.
Special Assembly	The addition of equipment to either existing equipment or voice (telecommunications) lines. Special assemblies enhance the ordinary capabilities of equipment or lines and are designed for the specific needs of an Air Force user.
Tariff	A schedule of authorized charges or rates of the Bell Operating Companies approved by a state public utility commission.
Universal Service Order Code	An alpha-numeric designation that classifies or identifies telecommunications services appearing on the monthly Bell Operating Company bill.

BILLING EFFECTS OF DIVESTITURE

Overview. Most Air Force installations either own or lease an on-premise switch, a Private Branch Exchange, which provides the user with dial tone service, control of telephone routing, and options for telephone features. Some Air Force installations neither own nor lease a switch and subsequently rely on a local exchange carrier (usually a Bell Operating Company) for their switch services. The Bell Operating Companies provide switch services and other features to Air Force users through a Central Office. A Central Office is a highly automated telecommunications center where the Bell Operating Companies terminate customer lines and house the equipment that connects these lines. Users who are serviced by a Central Office refer to its service as Central Office Exchange Service, or CENTREX. As part of the divestiture agreement, the Bell Operating Companies retained their Central Office operations and the right to provide all services associated with CENTREX.

The divestiture redistribution and assignment of telecommunications services between AT&T and the Bell Operating Companies occurred in early 1984. The actual assignment of services was accomplished through a transfer of billing codes from the Regional Bell Operating Companies to AT&T. The Plan of Reorganization allowed AT&T the ability to provide special assemblies and customer-premise (leased) equipment, while the Bell Operating Companies were allowed to provide Automatic Voice Network (AUTOVON) termination service.

Special Assemblies and AUTOVON and Defense Commercial Telecommunications Network (DCTN) Terminations. A special assembly is the addition of equipment to either existing equipment or to voice (telecommunications) lines. Special assemblies enhance the ordinary capabilities of equipment or lines and are designed for specific needs of the DoD user. Most special assemblies were installed before divestiture and are billed at unit prices established at the time of installation. Before divestiture, special assemblies were owned by the local Bell Operating Company, which was corporately synonymous with AT&T. After divestiture in 1984, AT&T assumed ownership of and the right to bill customers for special assemblies. Although the detailed inventory records identifying the location of each special assembly and, therefore, the basis for the monetary charges, were transferred by the Regional Bell Operating companies to AT&T, AT&T cannot locate the inventory records. Accordingly, both AT&T management and Bell Operating Company management consider the records to be lost.

All Air Force installations and activities that subscribe to AUTOVON and DCTN service pay a backbone fee to Defense Communications Agency (DCA) for the service. However, the

BILLING EFFECTS OF DIVESTITURE (Continued)

CENTREX users must pay an additional charge to the servicing Bell Operating Company because CENTREX provides the additional service of routing incoming and outgoing AUTOVON and DCTN calls from the Central Office to the Air Force installation.

AUTOVON and DCTN calls terminate through a CENTREX software mechanism. The monthly charge for AUTOVON and DCTN termination service is controlled in most states through Bell Operating Company tariffs filed at the appropriate state public utility commissions and is directly proportional to the number of AUTOVON or DCTN access lines located at an installation. Tariffs for AUTOVON termination service are filed as a private line termination and are usually distinguished in price as a Routine-AUTOVON or a Precedent-AUTOVON termination. A Routine-AUTOVON call has no preemptive capability, while a Precedent-AUTOVON call is prioritized and can preempt all other AUTOVON calls. Tariffs that specifically identify DCTN terminations have not been filed by Bell Operating Companies. However, Routine-AUTOVON terminations and DCTN terminations are functionally identical.

Divestiture Billing Codes Transfer. Telecommunications services are classified by an alpha-numeric billing code known as a Universal Service Order code (USOC). The USOC associated with special assembly charges is E99ZPYZZ++. In compliance with the Federal court-ordered divestiture decree, all USOC's with this exact 10-character designation were transferred from the Bell Operating Companies to AT&T. The transfer of the special assembly USOC's was handled by the Regional Bell Operating Companies, the holding companies for the Bell Operating Companies. However, due to an apparent programming oversight, all other USOC's beginning with the first 3-character designation E99, were inadvertently transferred by the Regional Bell Operating Companies to AT&T. Prominent among this transfer were the numerous E99 billing codes associated with AUTOVON termination service. Accordingly, through this erroneous USOC transfer, the Bell Operating Companies allowed AT&T to bill for AUTOVON termination service although they provided the service. The Bell Operating Company USOC's beginning with E99 and associated with AUTOVON termination charges that were erroneously transferred were: BFBK1, BFBK9, BFDKB, BFDKC, BFDKG, BFDKQ, BFDKR, BFDKU and BFDKW.

Discovery of AT&T Billing Errors. In 1986 and 1987, the AT&T billing discrepancy relating to AUTOVON terminations was identified. The errors were detected by various Bell Operating Company marketing representatives who discovered that their respective companies were not billing Air Force CENTREX installations for the AUTOVON termination service. Bell marketing representatives notified the various regional AT&T Federal Business Centers (billing offices) of the billing

BILLING EFFECTS OF DIVESTITURE (Continued)

errors. In concert with the Bell Operating Companies, AT&T agreed that Air Force installations that were assessed AUTOVON termination charges after April 15, 1985, would be eligible for a credit equal to the amount overcharged by AT&T. (No effort was made to compensate installations for charges assessed for unidentifiable special assemblies). The period immediately before April 15, 1985, and extending back to January 1, 1984, was viewed as a "wash" by AT&T and the Bell Operating Companies; that is, AT&T absolved itself from issuing credits for erroneous AUTOVON termination charges from January 1, 1984, through April 15, 1985. This internally devised policy was done with the concurrence of all 22 local Bell Operating Companies. In turn, the Bell Operating Companies agreed that they would not seek remuneration for AUTOVON termination service provided to Air Force installations from January 1, 1984, to April 15, 1985. They did, however, retroactively bill Air Force installations from the time the errors were detected in either 1986 or 1987, back to April 15, 1985.

The April 15, 1985, benchmark is regarded by AT&T and the Bell Operating Companies as the end of the "true-up" period, as provided by the Plan of Reorganization. Generally, the Federal court allowed the divested parties a grace period of 1 year as a "...discovery of record errors and of mistaken assignments...."^{1/} AT&T interpreted the Plan of Reorganization as allowing AT&T to retain revenue accrued from the erroneous AUTOVON termination charges from January 1, 1984, through April 15, 1985, and that AT&T could not be held liable for erroneous billing actions during that period. We considered AT&T's interpretation and subsequently discussed the matter with lawyers of the Antitrust Division, Department of Justice. The Antitrust Division handled the Government's interest during the court-ordered deregulation of AT&T. The Antitrust Division legal staff did not agree with AT&T's interpretation, mainly asserting that the "true-up" period did not relieve AT&T of incurred liability. The Department of Justice took the position that all AT&T overcharges assessed against Air Force CENTREX installations from January 1, 1984, forward must be credited to the affected installations.

Finally, in a breach of its policy (refusing to provide credits for overcharges incurred before April 15, 1985), AT&T provided a credit to a U.S. Naval installation for overcharges relating to AUTOVON termination service incurred in late 1984. It appeared to the auditors that a precedent was created that would justify future credit requests for overcharges incurred by all DoD installations from January 1, 1984, through April 15, 1985.

^{1/} Plan of Reorganization, Civil Action No. 82-0192, United States District Court for the District of Columbia.

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AUDIT METHODOLOGY

Our audit approach in determining the accuracy of charges for Automatic Voice Network (AUTOVON) and Defense Commercial Telecommunications Network (DCTN) termination service and special assembly items is discussed below.

CENTREX Universe. We identified the Air Force Central Office Exchange Service (CENTREX) universe from network schematics available in the AT&T Routing Guide, dated December 15, 1987. The guide showed that of 44 DoD installations serviced by CENTREX, 7 were Air Force installations. To determine if these Air Force installations had been erroneously charged for AUTOVON termination service or for special assemblies, we requested AT&T to provide official company accounting records for the period January 1, 1984, through August 31, 1988. The records indicated whether or not billing codes associated with AUTOVON termination service and special assembly charges appeared on AT&T invoices to the seven Air Force installations for that period. From an initial list of seven Air Force CENTREX users, we identified four installations that were being erroneously billed for AUTOVON or DCTN termination service and special assemblies. The remaining three Air Force installations were not charged for AUTOVON termination service or special assemblies.

Evaluation of Charges. All instances of potential AT&T overcharges were then verified to billing information available at the four Air Force installations ^{1/} included in our audit. We examined available AT&T invoices, Bell Operating Company invoices, available Communications Service Authorizations, work orders, and Basic Agreements to determine the validity and appropriateness of charges. We reviewed internal controls over communications bill paying procedures at each installation, as well as the Air Force Communications Command's internal control policies relating to payment of vendor invoices. We inventoried special assembly items at the four Air Force installations. To reconcile the number of AUTOVON and DCTN terminations listed on Air Force invoices, we visited the local Bell Operating Company Central Office that serviced each of the installations. Additionally, we visited state public utility commission offices to verify that termination charges billed to the Air Force agreed with the amounts allowed (tariffs) to be charged for such services. We also met with Bell Operating Company officials to discuss issues relevant to the audit. We met with Defense Communications Agency (DCA) officials periodically throughout the

^{1/} McClellan Air Force Base, California; Los Angeles Air Force Base, California; Onizuka Air Force Base, California; and the U.S. Air Force Academy, Colorado.

AUDIT METHODOLOGY (CONTINUED)

audit to obtain official DoD telecommunications guidance. Through the cooperation of these officials, we were provided with DCA certified circuit inventory data that was valuable to our audit.

We provided Air Force installation commanders with our results immediately upon completion of the field work at each site. Further, to provide timely audit results, we sent memorandums to the commanders of the four Air Force installations audited. We also provided the same summaries to the appropriate higher Air Force commands and to DCA. We discussed the details of our results and recommendations with senior officials of the Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) and with the Director, Defense Communications System Organization, DCA. In our correspondence and meetings, we explained the basis for our conclusions and stressed the need to take corrective action to: eliminate erroneous charges, initiate collection action against AT&T and the Bell Operating Companies for prior overpayments, conduct baseline inventories of telecommunications assets, and improve internal controls over bill paying procedures.

SUMMARY OF PACIFIC BELL OVERCHARGES FOR
PRIVATE LINE TERMINATIONS AT AIR FORCE INSTALLATIONS

<u>Installation</u>	<u>Period</u>	<u>Circuit Type</u>	<u>Actual Monthly Billing</u>	<u>Monthly Tariff Charge 1/</u>	<u>Monthly Amount Overcharged</u>	<u>Number of Months Overcharged 2/</u>	<u>Amount Overcharged 3/</u>
McClellan Air Force Base (AFB)	Apr. to May 1989	DCTN 4/	\$5,435	\$3,339	\$2,096	2	\$ 4,193
Los Angeles AFB	Dec. 1987 to May 1989	DCTN	5,194	2,856	2,338	17	39,746
	Mar. 1986 to Nov. 1987	DCTN	4,928	2,856	2,072	20	41,440
Onizuka AFB	Sept. 1985 to Apr. 1989	Precedent- AUTOVON 5/	236	177	59	43	2,537
	May 1986 to Dec. 1987	DCTN	880	510	370	19	7,030
	Dec. 1987 to Apr. 1989	DCTN	927	510	417	16	<u>6,680</u>
Total Pacific Bell Overcharges							<u>\$101,626</u>

- 1/ Amount authorized per tariff filed by the Pacific Bell Telephone Company with the State of California Public Utility Commission.
2/ Number of months billed is rounded to the nearest month.
3/ Overcharges represent exact amounts billed by Pacific Bell.
4/ The Defense Commercial Telecommunications Network circuit.
5/ Automatic Voice Network.

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SUMMARY OF AT&T SPECIAL ASSEMBLY OVERCHARGES
AT AIR FORCE INSTALLATIONS
FOR MARCH 1984 THROUGH MAY 1989

<u>Installation</u>	<u>Monthly Recurring Charge</u>	<u>No. of Units Billed</u>	<u>Total AT&T Monthly Billing</u>	<u>Number of Months Billed</u>	<u>Overcharges</u>
McClellan Air Force	\$ 1.58	10	\$ 15.80	61	\$ 963.80
Base (AFB)	2.06	2	4.12	61	251.32
	2.32	1	2.32	61	141.52
	2.42	4	9.68	61	590.48
	2.53	35	88.55	61	5,401.55
	3.16	26	82.16	61	5,011.76
	3.79	1	3.79	61	231.19
	11.49	6	68.94	61	4,205.34
	13.18	14	184.52	61	11,255.72
	15.81	16	252.96	61	15,430.56
	26.88	1	26.88	61	1,639.68
	36.78	2	73.56	61	4,487.16
	51.12	1	51.12	61	3,118.32
	66.35	1	66.35	61	4,047.35
	194.99	1	194.99	61	<u>11,894.39</u>
Subtotal					\$68,670.14
U.S. Air Force	\$ 1.11	2	\$ 2.22	28	\$ 62.89
Academy	2.64	1	2.64	28	74.79
	6.47	3	19.41	28	549.89
	26.32	1	26.32	28	745.65
	45.31	1	45.31	28	<u>1,283.63</u>
Subtotal					\$ 2,716.85
Los Angeles AFB	\$ 2.52	15	\$ 37.95	49	\$ 1,859.55
	15.44	1	15.44	22	<u>339.68</u>
Subtotal					\$ 2,199.23
Total AT&T Overcharges					<u><u>\$73,586.22</u></u>

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DEPARTMENT OF THE AIR FORCE
OFFICE OF THE CHIEF OF STAFF
UNITED STATES AIR FORCE
WASHINGTON, D C 20330

5 Sept 1990

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: DOD(IG) Draft Report on the Audit of Billings for
CENTREX AUTOVON Terminations in the Department of
the Air Force, 30 March 1990 (Project #9IC-0025.01)
- INFORMATION MEMORANDUM

REFERENCES:

- a. AF/CVA Memo, 19 Jun 90, Same Subject.
- b. DOD(IG) Memo, 30 Mar 90, Same Subject.

The attached comments provide additional information to the 19 Jun 90 Assistant Vice Chief of Staff Memorandum. A legal review recently completed by the Air Force Communications Command legal staff allows the Air Force to seek credits for alleged overcharges. However, as previously noted, these issues are complex and claims for overcharges will be handled on a case-by-case basis. We continue to disagree with the recommendation that base communications managers maintain contractual documents of little use to them. We do agree to add a cautionary comment to AFR 700-8 stating that, depending on the circumstances, disciplinary action could result from improper billing verification. Finally, while we agree that future communications budgets should be reduced if they include funds that would otherwise end up as overcharges, this amount can be determined only after legal determination and a review of future budgets.

Specific rationale and justification for these positions are contained in the attached comments.

Carl R. Smith
CARL R. SMITH, Lt General, USAF
Assistant Vice Chief of Staff

1 Attachment
Comments

Additional Comments on
DOD(IG) Draft Report on the
Audit of Billings for CENTREX AUTOVON Terminations
in the Department of the Air Force, 30 March 1990
(Project #9IC-0025.01)

Final Report
Page No.

1. Paragraph 1a, page 33:

DOD(IG) RECOMMENDATION: Direct that the responsible Air Force Contracting Officer take action to recover \$458,053: (1) By obtaining a credit of \$356,427 from AT&T for the four Air Force installations overcharged for AUTOVON termination service and special assemblies; and (2) By obtaining a credit of \$101,626 from Pacific Bell for the three Air Force installations overcharged for Automatic Voice Network (AUTOVON) and Defense Commercial Telecommunications Network (DCTN) termination service.

16

USAF RESPONSE: Concur. A legal review has been completed by HQ AFCC/JA which will allow USAF to seek credit for each alleged overcharge. Suspense for completed actions: 30 Sep 91. Suspense for next follow-up: 31 Oct 90.

2. Paragraph 1b(1), page 34:

DOD(IG) RECOMMENDATION: Change the "Billing Procedures" section of Air Force Regulation 700-8 by adding a requirement for base communications managers to maintain current copies of all Basic Agreements, Tariffs, and Communications Service Authorizations so that proper monthly certification of telecommunications services can be accomplished.

16

USAF RESPONSE: Concur in part. The Communications Service Authorization is the working document for base communications managers, and should contain the necessary Tariff information needed to accurately certify telecommunications services. To the contrary, Basic Agreements are primarily used by the contracting officer and lend little help in the conduct of the base manager's responsibilities. Suggest the following change to DOD(IG) recommendation: "Change the 'Billing Procedures' section of AFR 700-8 by adding a requirement for base communications managers to maintain a current copy of all applicable Communications Service Authorizations, with the necessary Tariff information, so that monthly certification of telecommunications services can be accomplished." Suspense for completed action: 30 Sep 91. Suspense for next follow-up: 31 Oct 90.

3. Paragraph 1b(2), page 34:

DOD(IG) RECOMMENDATION: Change the "Billing Procedures" section of Air Force Regulation 700-8 by adding a provision for disciplinary action against communications managers who fail to certify bills properly and use inadequate bill paying verification procedures.

16

USAF RESPONSE: Concur. The following comments (specific wording to be determined) will be added to AFR 700-8 to stress the importance of the telephone billing function: (1) The communications manager, when verifying bills and certifying the amount for payment, is acting as a representative of the comptroller; and (2) Depending on the specific circumstances, improper verification and certification of bills could possibly lead to disciplinary action. Suspense for completed action: 30 Sep 91. Suspense for next follow-up: 31 Oct 90.

4. Paragraph 1c, page 34:

DOD(IG) RECOMMENDATION: Establish a command (AFCC) internal control program to annually test the accuracy of base communications bill paying procedures by reconciling base communications inventories to the Communications Service Authorization (CSA) and certified bills. The Air Force Communications Command should provide results of this annual program to all major commands within the Air Force.

17

USAF RESPONSE: Concur. Two recent events influence development of bill paying and inventory procedures. First, the Assistant Secretary of Defense for C3I will soon issue a new DOD Directive mandating the establishment of a tri-Service database of all leased telecommunications services. The purpose of this database is to provide a vehicle to properly track leased services and to ensure we only pay for those services provided. The Defense Communications Agency (DCA) has been directed to establish a joint Service format for this database. The three Services then have one year in which to do a complete inventory and load the data. We anticipate publication of this DOD Directive in Aug 90, with completion of the inventory by the three Services in Jan 92. After development of this inventory database, the three Services are required to automatically update it as new CSAs are issued and the inventories change. The second development influencing this process is the restructure of AFCC. Responsibility for verification will shift to the individual Operating Commands on 1 Oct 90. Suspense for completed action: 31 Jan 92. Suspense for follow-up: 31 Oct 90.

5. Paragraph 2, pages 34-35:

DOD(IG) RECOMMENDATION: SAF/FM: (1) Reduce the appropriate Air Force communications budget for FY 1990 by \$524,320; and (2) Reduce the appropriate Air Force communications programs element for the FY 1990-FY 1994 Five Year Defense Plan by a total of \$815,730.

17

USAF RESPONSE: Concur. However, budget actions should occur only after the completion of legal and contractual review and subsequent negotiations with AT&T and appropriate Bell Operating Companies. SAF/FM will reduce the appropriate Air Force communications budget and program elements only by the amount determined after resolution of legal and contractual issues and verification of overcharges by Air Force Communications Command, and only that amount of determined overcharges remaining in future Air Force budgets. Air Force bases in question are taking action to correct billing problems within their control, and reduce their future budgets as a result. The budget reduction action taken by SAF/FM should take into consideration any amounts already reduced as a result of these actions.

**SUMMARY OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT**

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
1.a.	Compliance - obtains credits for overpayments made to vendor.	Monetary benefits are included in Recommendation 2.a. below.
1.b.	Internal Control - Improves base communications management.	Nonmonetary
1.c.	Internal Control - Establishes oversight and monitoring of base communications by the Air Force Communications Command.	Nonmonetary
2.a.	Compliance - Reduces communications budget as a result of overpayments.	\$527,036 - Funds put to better use/budgetary reduction (\$68,983 in recurring savings for FY 1991 plus \$458,053 of credits due from overpayments made from 1984 through 1989) for FY 1991. See Appendix H.
2.b.	Compliance - Reduces communications budget as a result of overpayments.	\$828,462 - Funds put to better use/budgetary reduction (\$370,409 total recurring savings for the Five-Year Defense Plan plus \$458,053 of credits due from overpayments made from 1984 through 1989), for the Five-Year Defense Plan. See Appendix H.

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FIVE-YEAR DEFENSE PLAN (FYDP) BUDGETARY IMPACT

Recurring Savings (Operation and Maintenance)									
Installation	Program	Element Number	Element Title	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	TOTAL FYDP
McClellan Air Force Base (AFB)	Central Supply and Maintenance	0702895F	Base Communications Logistics	\$30,049	\$31,191	\$32,314	\$33,381	\$34,415	\$161,350
			Base Communications Logistics	31,689	32,893	34,077	35,202	36,293	170,154
			Satellite Control Facility Communications	7,245	7,521	7,792	8,049	8,298	38,905
Total Recurring Savings				\$68,983	\$71,605	\$74,183	\$76,632	\$79,006	\$370,409
McClellan AFB	Central Supply and Maintenance	0702895F	Base Communications Logistics	\$232,759					\$232,759
			Base Communications Logistics	165,383					165,383
			Satellite Control Facility Communications	39,228					39,228
Onizuka AFB	Intelligence and Communications	0305151F	Base Communications Logistics	20,683					20,683
				\$458,053					\$458,053
				527,036	\$71,605	74,183	\$76,632	\$79,006	\$828,462
Total Savings									

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ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Command, Control,
Communications, and Intelligence), Washington, DC

Department of the Air Force

U.S. Air Force Communications Command, Scott Air Force Base, IL
Los Angeles Air Force Base, Los Angeles, CA
McClellan Air Force Base, Sacramento, CA
Onizuka Air Force Base, Sunnyvale, CA
U.S. Air Force Academy, Colorado Springs, CO

Defense Agencies

Headquarters, Defense Communications Agency, Washington, DC
Defense Commercial Communications Office, Scott Air
Force Base, IL

Non-DoD Activities

Department of Justice, Antitrust Division, Washington, DC
Federal Communications Commission, Washington, DC
California Public Utility Commission, San Francisco, CA
Colorado Public Utility Commission, Denver, CO

Non-Government Activities

Headquarters, AT&T Federal Systems, Washington, DC
Headquarters, AT&T Federal Business Center, Silver Spring, MD
AT&T Federal Business Center, Denver, CO
Pacific Bell Telephone Company, San Francisco, CA
U.S. West Telephone Company, Denver, CO

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Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management
and Comptroller)

Defense Agencies

Director, Defense Communications Agency
Defense Commercial Communications Office, Scott Air
Force Base, IL

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office
NSIAD Technical Information Office

Congressional Committees

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Communications, Committee on Commerce,
Science, and Transportation
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
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Committee on Energy and Commerce

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